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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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National Overview

Canadian Retail Pump Prices Increased 3 Cents per Litre from Last Week

After a two-week decline, gasoline prices increased nearly 3 cents per litre since the last report on June 29, 2012, bringing the average Canadian retail gasoline price on July 10, 2012, to \$1.26 per litre. However, prices are 2 cents per litre lower compared to the same time last year.

Diesel fuel prices increased by almost 1 cent per litre to \$1.18 per litre from the previous week. Prices are 4 cents per litre lower compared to the same period last year.

The rising gasoline pump prices reflect higher North American wholesale gasoline prices which, in turn, are pushed upward by underlying world crude oil prices.

Recent Developments

- **Oilsands Project Favours Rail Transportation:** Southern Pacific Resource Corp. made arrangements to take bitumen from its STP-McKay Thermal Project to the United States Gulf Coast by rail, which will save a significant amount on diluent. Transporting bitumen by rail from northern Alberta reduces diluent costs and offers access to Brent-based pricing versus selling it into a pipeline that offers access to West Texas Intermediate-based pricing. Located about 45 kilometres northwest of Fort McMurray, Phase 1 is designed to recover 12,000 bbls per day of bitumen. The rail and terminal arrangements have an average term of five years. The arrangement is significant to Southern Pacific because it demonstrates that alternatives to conventional pipelines are available to market bitumen from the Athabasca oilsands. (Source: Daily Oil Bulletin)
- **Oil Rises On Norway Strike:** Brent crude oil prices pushed up to around US\$90 per barrel as a strike by workers and a planned lockout by companies threatened to shut down Norway's crude oil production completely. Negotiations between Norway's oil workers and employers over pay and pensions could not resolve the dispute, raising the possibility of the first complete shutdown of Norway's oil industry in more than 25 years. (Source: Daily Oil Bulletin, June 9, 2012)
- **British Columbia Carbon Tax Increase:** On July 1, 2012, the British Columbia carbon tax increased to 6.67 cents per litre from 5.56 cents per litre. The revenue-neutral carbon tax was implemented on July 1, 2008, and the final scheduled increase took effect on July 1, 2012. No further rate increases or expansions are planned at this time. (Source: BC Ministry of Finance)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

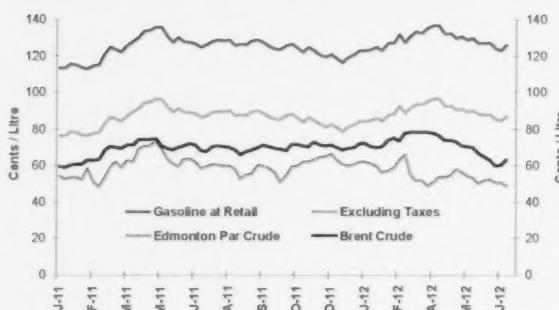
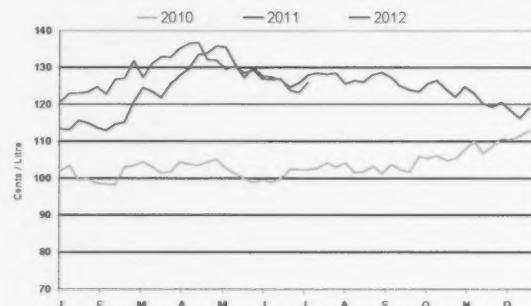


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

\$/L	Week of:	Change from:	
		Previous Week	Last Year
Gasoline	2012-07-10	+2.9	-1.9
Diesel		+0.7	-4.3
Furnace Oil		0.0	+0.5

Source: NRCan

In this Issue

page

National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Prices	3
Refining and Marketing Margins	4
Crude Oil Overview	5



Retail Gasoline Overview

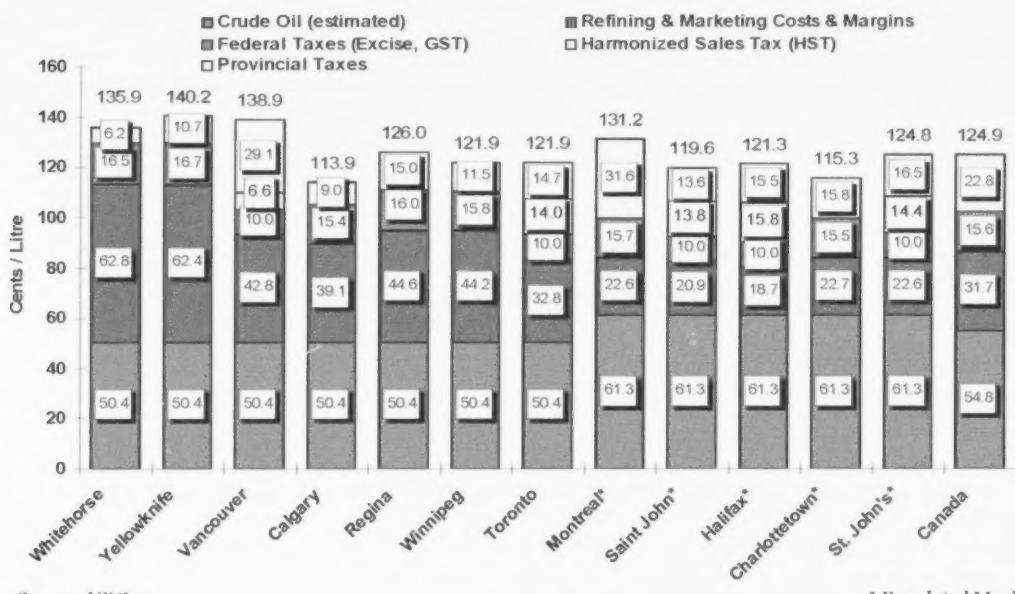
The average Canadian pump price in selected cities for the **four-week average** ending July 10, 2012, was \$1.25 per litre, a decrease of 1 cent per litre from the last report on June 29, 2012. This represents a 1 cent-per-litre decrease compared to the same period in 2011.

The **four-week average** crude oil price decreased by 1 cent per litre to 55 cents per litre compared to two weeks ago. This is more than 8 cents per litre lower compared to the same period in 2011.

Retail gasoline prices in most Western centres (Vancouver to Winnipeg) decreased by almost 1 cent per litre when compared to the previous report and ranged from \$1.14 per litre to \$1.39 per litre. Prices in Eastern cities (Toronto to St. John's) declined by 3 cents per litre, and ranged from \$1.15 per litre to \$1.31 per litre.

At the national level, refining and marketing costs and margins registered a slight increase of 0.2 cent per litre to 32 cents per litre. This represents an increase of 7 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 19 to July 10, 2012)**



Source: NRCan

* Regulated Markets

Inflation Up 1.2% in May

Statistics Canada's Consumer Price Index (CPI) report released June 22, 2012, indicates that consumer prices rose 1.2% in the 12 months to May, following a 2.0% increase in April. This 0.8 percentage point difference was mostly attributable to declines in gasoline prices. Decreases in clothing prices as well as slower price gains for the purchase of passenger vehicles were also factors. The energy index fell 1.6% in the 12 months to May, its first year-over-year decline since October 2009. Natural gas prices (-16.6%) continued to post declines. Gasoline prices decreased 2.3%, after 22 months of year-over-year increases. In contrast, electricity prices continued to rise.

Transportation costs rose 0.8% in the 12 months to May after increasing 3.2% in April. This slower rate of increase was largely the result of year-over-year price declines in gasoline and, to a lesser extent, smaller price increases for the purchase of passenger vehicles.

Source: Statistics Canada, The Daily, <http://www.statcan.gc.ca/daily-quotidien/120622/dq120622a-eng.htm>



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Wholesale Gasoline Prices

For the **week ending July 5, 2012**, wholesale gasoline prices increased in most selected centres compared to the previous week. Overall, price changes ranged from an increase of 6 cents per litre to a decrease of nearly 3 cents per litre. Prices for the period ended in the 74 and 82 cent-per-litre range.

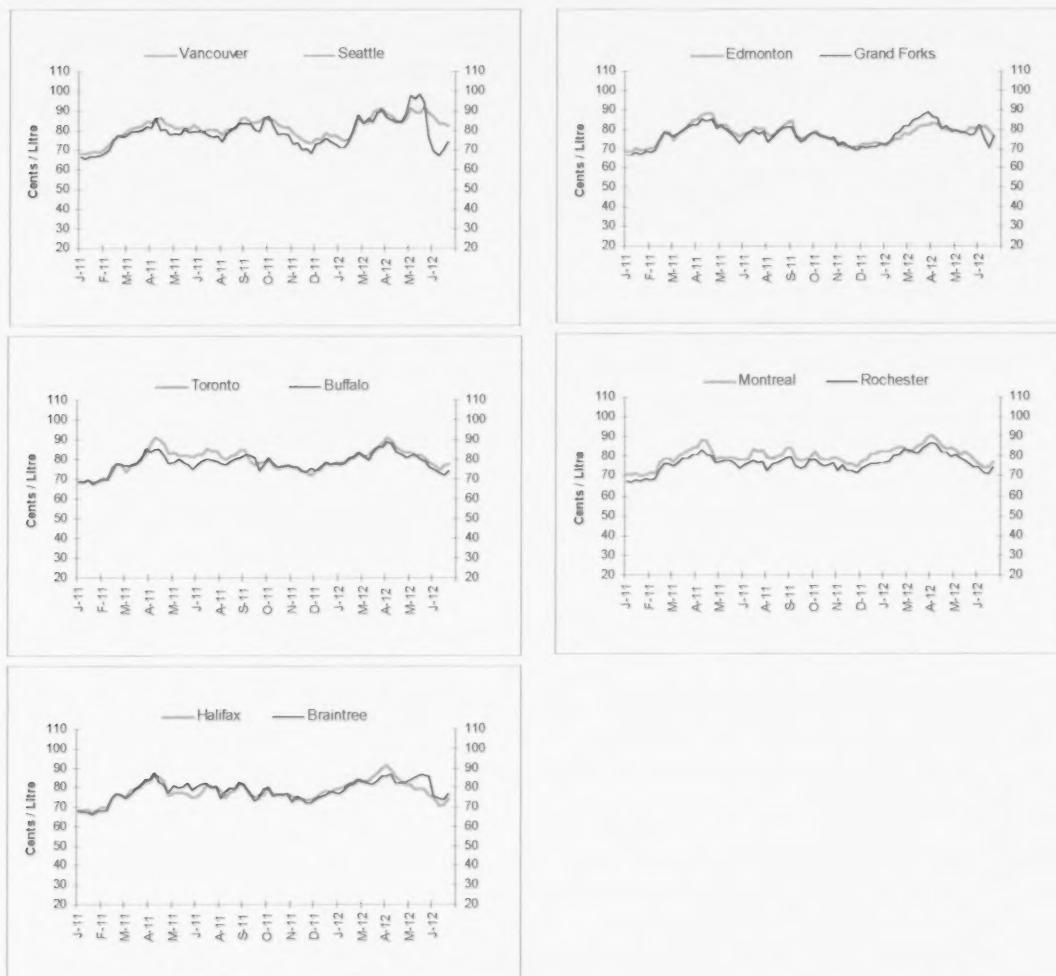
In both Canadian and comparable U.S. markets, compared to two weeks ago, prices changes ranged from an increase of nearly 7 cents per litre to a decrease of 5 cents per litre.

Eastern centres registered price increases in the range of less than 1 cent per litre to more than 3 cents per litre, while wholesale prices in western centres ranged from a decrease of 3 cents per litre to an increase of 6 cents per litre.

Overall, wholesale prices in most selected centres remained between 2 and 5 cents per litre lower than they were at this time last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending July 5, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide



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Gasoline Refining and Marketing Margins

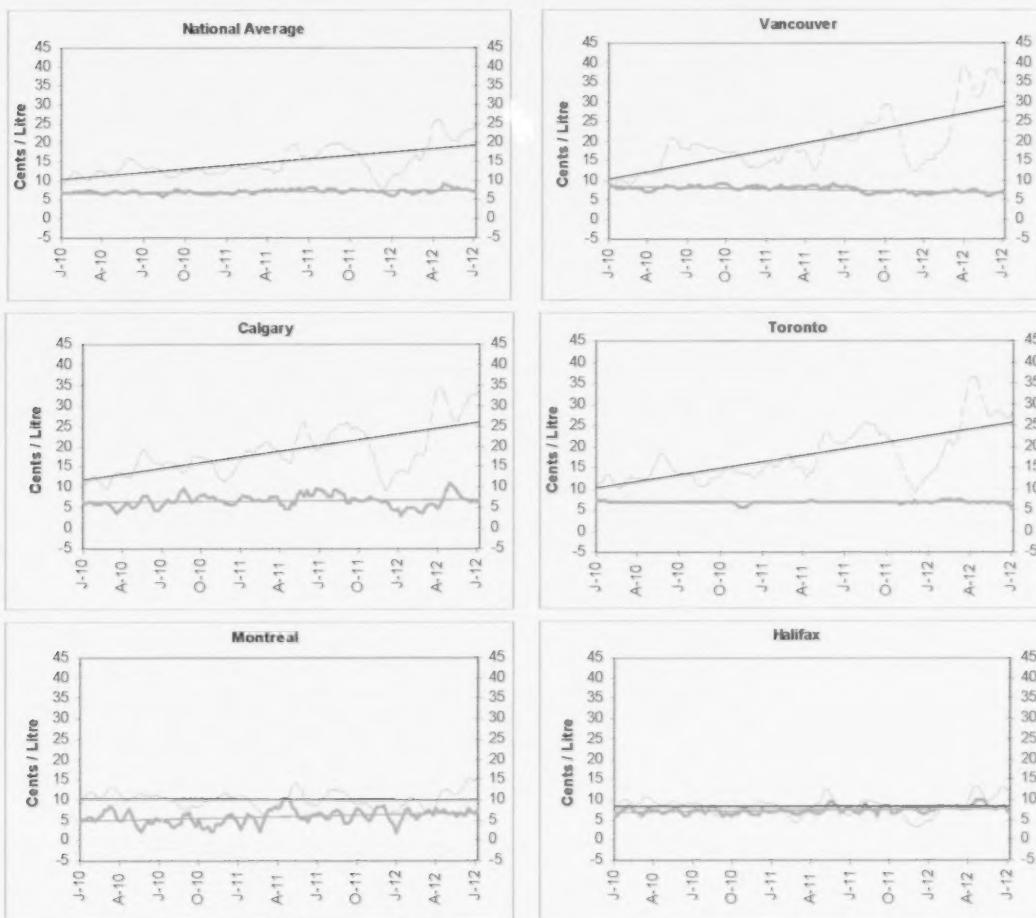
Four-week rolling averages are used for gasoline refining and marketing margins.

Gasoline refining margins have been trending upward in the last six weeks mainly because of the traditional rise in demand with the summer driving season and lower gasoline inventories in North America. As demand for gasoline rises, inventories are drawn down and wholesale gasoline prices are driven up as markets try to rebalance.

Refining margins are 8 cents per litre higher at the national level, compared to the same period last year.

Nationally, marketing margins hovered around 7 cents per litre. Some individual centres show more fluctuations depending on the region, volume sold, and availability of other product offerings such as convenience stores and car washes.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending July 10, 2012
----- Refining Margin — Marketing Margin



Source: NRCan



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Crude Oil Overview

WTI and Brent Push Up While Edmonton Par Declines

For the week ending **July 6, 2012**, prices for the three marker crudes averaged between \$496/m³ and \$631/m³, (US\$78 to US\$99 per barrel). Compared to the previous week, the price for the WTI and Brent marker crudes increased in the range of \$32/m³ to \$31/m³ (US\$6 per barrel, respectively).

For the week ending July 6, 2012, Brent crude oil prices continued to trade at a premium to WTI by a margin of \$81/m³ (US\$13 per barrel). Edmonton Par was trading lower than WTI by \$54/m³ (US\$8.50 per barrel).

Brent and WTI crude oil prices rebounded for the week ending July 6, 2012, in response to Iran's draft legislation to ban oil shipments through the Strait of Hormuz to countries supporting sanctions against Iran. European Union sanctions against imports of Iranian crude oil went into effect July 1, 2012.

Brent oil prices also rose after the Norwegian Oil Industry Association announced a lockout of offshore workers after negotiations between workers and management failed to end a strike. Norway's largest oil company, Statoil ASA, plans a control shutdown of 1.2 million barrels per day.

Figure 6: Crude Oil Price Comparisons

